

EXHIBIT B

MEMORANDUM OF UNDERSTANDING

Duke Energy Grays Harbor, LLC ("Duke") and Energy Northwest (collectively "the Certificate Holders") are parties to a Site Certification Agreement ("SCA") authorizing construction and operation of a natural gas-fired combined-cycle combustion turbine facility (the "CT Facility") located at Satsop, Washington.

The SCA for the Satsop site originally authorized construction and operation of a nuclear facility. The SCA was amended in 1996 to authorize the CT Facility, and has been further amended in 1999 and 2001. The SCA includes several provisions concerning the use of water at the CT facility, including a water authorization. However, the SCA does not provide detailed guidance regarding the interpretation and practical application of all of the provisions relating to water.

The Washington Department of Ecology ("WDOE"), the Washington Department of Fish and Wildlife ("WDFW"), and the Certificate Holders (collectively "the Parties") hereby enter into this Memorandum of Understanding ("MOU"), which expresses the Parties' agreement regarding the appropriate interpretation and implementation of the water use authorization and requirements found in the SCA.

I. Amendment of Water Use Provisions.

The Parties agree that the SCA should be amended so that the description of water use more clearly corresponds to the design of the CT Facility. The SCA currently authorizes the CT Facility to use up to 9.5 cubic feet per second ("cfs") of water, of which 8.6 cfs would be used for "power production" and 0.9 cfs would be used for "quench" water to cool the discharge.

After construction of the CT Facility was underway, it became apparent that the Certificate Holders had interpreted this provision differently than WDOE and WDFW. The Certificate Holders have agreed to limit the CT Facility's maximum use of water to 9.2 cfs in exchange for the agreement of WDOE and WDFW that the SCA should be amended to clearly authorize the current design of the CT Facility with respect to water use.

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Specifically, the Parties agree that SCA Article IV.A.1. should be amended as follows:

The Certificate Holder is hereby authorized to withdraw water to be used for the operation of the Satsop Combustion Project as follows:

The Satsop Combustion Turbine Project is ~~two combustion turbine units~~ are limited to a total of ~~9.5~~ 9.2 cubic feet per second, of which ~~8.6~~ cubic feet per second will be for power production, including quench water to meet the temperature limits of the NPDES permit. The remaining ~~0.9~~ cubic feet per second is for quench water to cool the Satsop Combustion Turbine Project discharge below the temperature set in the NPDES Permit. Withdrawal is subject to the terms as more particularly described in Attachment III, attached hereto and incorporated by reference.

The Parties agree to amend SCA Article IV.A.4 as follows:

Withdrawal of water for the Satsop Combustion Turbine Project from the Ranney wells shall be decreased (or stopped) as necessary to assure that the project does not affect the minimum base flows immediately downstream of the point of diversion. The required minimum base flows are established in Chapter 173-522-020, Washington Administrative Code, and set forth in Attachment III. All withdrawals are subject to the withdrawal restrictions set forth in Attachment III, ~~and the additional 0.9 cubic feet per second of quench water withdrawal is also limited to periods in which an additional withdrawal will actually reduce the temperature of the discharge.~~ This authorization is also subject to the provision of Chapter 173-522 and Chapter 173-500, Washington Administrative Code.

The Parties also agree to amend the Water Authorization found in Attachment III of the SCA. Section I.C. should be amended to read:

MAXIMUM QUANTITY:

Instantaneous ~~9.5~~ 9.2 cubic feet per second
Annual: 6,865.65 acre feet.

Section I.D. should be amended to read:

~~8.6~~ 9.2 cubic feet per second for power generation, ~~including quench water to meet the temperature limits of the NPDES permits; and 0.9 cubic feet per second for quench water and to cool the discharge below~~ to the temperature set in the NPDES permit.

Section III.A. should be amended to read:

Instream Flow – The rate of diversion for the Satsop Combustion Turbine Project is limited to a maximum of ~~9.2~~ 9.5 cubic feet per second. However, the diversion shall be decreased (or stopped) as necessary to ensure that the Satsop Combustion Turbine Project does not affect the minimum base flows immediately downstream of the point of diversion. The required minimum base flows are established in WAC 173-522-020 and set forth in subsection (B) below. All withdrawals for the Satsop Combustion Turbine Project are subject to the withdrawal restrictions set forth herein concerning periods of low flow.

II. Implementation of Flow Restrictions

The water authorization contained in the SCA is subject to the base flow restrictions set forth in Washington Administrative Code 173-500-020. The Parties have agreed upon the following method of implementing the base flow restrictions.

- A. The SCA prohibits the Certificate Holder from utilizing the Water Authorization during periods when the flow in the Chehalis River at monitoring station 12.0350.02 falls below the regulatory base flows established by WAC 173-522-020.
 1. Chehalis River flow will be monitored on a real-time basis using a gauge installed by the United States Geological Society

("USGS") at monitoring station 12.0350.02. The Certificate Holder will calculate the running 24-hour average flow rate at monitoring station 12.0350.02, based upon the real time data provided by the USGS gauge.

2. The SCA's restriction on the Water Authorization shall begin whenever the running 24-hour average flow rate falls below the base flow established by WAC 173-522-020.
3. The SCA's restriction on the Water Authorization shall end when both the instantaneous flow and the 24-hour average flow rate rises above the base flow established by WAC 173-522-020.

Appendix A provides several examples of how this methodology would work.

- B. At any time when the USGS gauge located in the Chehalis River at monitoring station 12.0350.02 is not functioning, the flow rate will be determined by using the following formula:

$$\left(\begin{array}{l} \text{Chehalis River} \\ \text{Flow at Station} \\ 12027500 \end{array} + \begin{array}{l} \text{Satsop River} \\ \text{Flow at Station} \\ 12035000 \end{array} \right) \times \begin{array}{l} \text{Correlation} \\ \text{Factor} \end{array}$$

At this time, the correlation factor will be 1.5.

- C. During periods in which the SCA's restriction on the water authorization is in effect, the Certificate Holder may continue to operate the CT Facility using water purchased from the Grays Harbor Public Development Authority or from other water rights holders, so long as the water purchased is derived from water rights that are not subject to base flow restrictions. The Certificate Holder will provide documentation to EFSEC, WDOE and WDFW confirming that the water being purchased for use during below-base-flow periods is not subject to base flow restrictions.

- D. The SCA requires the Certificate Holder to submit to EFSEC and WDOE annual summaries of static water level data and monthly totals of water pumped from the Ranney wells. (Attachment III, Art. III.F.) The Certificate Holder also agrees to submit annual reports to EFSEC, WDOE and WDFW indicating when base-flow restrictions were in effect, and describing the measures taken to comply with the SCA's base flow restrictions during those periods.

III. Protection of the USGS Gauge

As outlined in the letter dated September 15, 2003 from Cynthia Barton of the USGS to Laura Schinnell at Energy Northwest, the Certificate Holders will reimburse USGS for security lights, signage and an acoustic intrusion alarm at the gauging station to reduce the risk of damage or vandalism to the gauge.

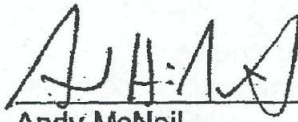
IV. Temperature Monitoring

Under the terms of the NPDES permit, the temperature of the facility's discharge will be continuously monitored at the point the cooling tower blowdown leaves the plant site and enters the PDA's discharge line.

Provided that no other Satsop Development Park tenants are discharging into the PDA's discharge line, Duke will agree to take grab samples from the manhole access or instrumentation access located on the upper bench above the Chehalis River in accordance with the following schedule:

1. Beginning with the first discharge to the blowdown line after the commencement of commercial operations, a grab sample will be taken on a weekly interval for the first six months, and monthly for the next six months.
2. If, after one year, the grab samples indicate that the temperature does not exceed 16 degrees C, the monitoring at this location will cease. If the temperature exceeds 16 degrees C, grab samples will be conducted on a monthly basis for an additional year.
3. A report comparing results of both the continuous monitoring of discharge temperature at the plant site and the grab samples will be provided to EFSEC, WDFW and Ecology within 90 days of completing the Effluent Study required by Condition 12.C. of the NPDES permit.

For Duke Energy Grays Harbor, LLC



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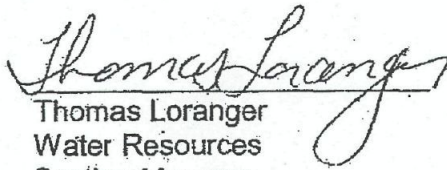
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